

VZCZCXR05166
RR RUEHCN
DE RUEHGZ #8841/01 0880535
ZNR UUUUU ZZH
R 290535Z MAR 06
FM AMCONSUL GUANGZHOU
TO RUEHC/SECSTATE WASHDC 2255
INFO RUEHOO/CHINA POSTS COLLECTIVE
RULSDMK/DEPT OF TRANSPORTATION WASHDC
RUCPDOC/USDOC WASHDC
RUEAIIA/CIA WASHDC
RUEKJCS/DIA WASHDC
RHHMUNA/HQ USPACOM HONOLULU HI

UNCLAS SECTION 01 OF 02 GUANGZHOU 008841

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E.O. 12958: N/A

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SUBJECT: HAINAN AIRLINES APATHETIC ABOUT UPCOMING U.S.-CHINA AVIATION TALKS

REF: A. BEIJING 2773, B. GUANGZHOU 32752, C. GUANGHZOU 24010

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¶1. (U) Summary. Hainan Airlines expressed little interest in the upcoming April 19-20 U.S.-China aviation talks, citing its inability to operate flights to the United States at this point. This inability stems from three reasons: the airline is not a designated carrier; it does not have the necessary long-range aircraft; and it is still conducting market research on the American market. Still, the airline is interested in the possibility of future flights to the United States. End summary.

¶2. (SBU) On March 24, Consulate and Embassy officers called on Hainan Airlines (HNA) at its Haikou headquarters, to gather the company's views on the upcoming U.S.-China aviation services talks, to be held in Beijing on April 19-20 (REF A). HNA officials said that, although the airline is interested in eventually flying to the United States, at present, "conditions do not permit [HNA]" to do so. For this reason, the airline will "just take" the results of the negotiations.

¶3. (U) HNA cited three reasons for their inability to operate flights to the United States at this point: (1) HNA is not a designated carrier to the United States under the terms of prior U.S.-China agreements; (2) HNA only has two long-range aircraft on its fleet (two 767-300s, which in any case do not have the necessary range to fly nonstop from China to America); and (3) The airline is still conducting market analysis to determine which American markets would be most promising.

¶4. (SBU) Explaining to HNA that we understood these limitations, we noted that the lifting of one of them, i.e., the fact that HNA is not a designated carrier, might be affected by the upcoming negotiations. Moreover, HNA is part of a group of six Chinese state-owned airlines that in January agreed to buy 60 Boeing 787s, which means HNA could have the requisite aircraft in its fleet to fly to America by as early as 2008. Therefore, we posited, the upcoming talks were of more than passing importance to HNA. In response, however, we received a reiteration of the three reasons previously stated. (Note: China already has available designations that it could award to HNA, but its aviation authorities have chosen not to do so. Nonetheless, if more designations are made available to China after the April talks, the airline's odds of becoming a designated carrier would presumably improve. HNA would still have to

overcome its own operational deficiencies before it could begin flights to the United States. End note)

¶ 15. (SBU) Despite the current limitations, HNA is clearly interested in at least exploring the possibility of flying to the United States in the future. As one of its representatives stated, "all [Chinese] airlines know [the American market] is profitable." (Note: This conflicts somewhat with an assertion made in November by a China Southern Airlines (CSA) representative, to the effect that Chinese airlines are hesitant to enter the American market because they feel unable to compete against the local carriers. In fact, its Guangzhou-Los Angeles route is a money-loser for them, although that might have to do less with the market than with CSA's own operational constraints (see REF B). End note)

It's different on the cargo front

¶ 16. (SBU) HNA confirmed that Yangtze River Express, HNA Group's all-cargo airline, had been in talks with the Massachusetts Port Authority (Massport) regarding the possibility of starting flights between China and Boston. The airline's base is in Shanghai, and presumably the flights to Boston would be from there as well.

Comment: We'll get there when we get there

¶ 17. (SBU) HNA officials conveyed a sense of apathy regarding the upcoming talks, which in turn probably belies the airline's perceived impotence to influence the process. This, of course, does not mean that HNA is not interested in

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flying to the United States, as their comments indicate. However, knowing full well that its designation will occur only when and if Beijing deems it appropriate, the airline is probably adopting a "wait and see" attitude.

¶ 18. (U) For more information about HNA, please read REF C.

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